

**INANDA NEWTOWN COMPREHENSIVE HIGH SCHOOL**  
**ACCOUNTING CLASS GRADE 12**

**MANUFACTURING**

**ACTIVITY**

The following information was taken from the records of Sunshine Manufacturers, a sole proprietor involved in the production and marketing of leather jackets.

**REQUIRED:**

1. Prepare the Production cost statement (with complete notes) for the year ended 29 February 2018:
2. Calculate the following for 2018:
  - 2.1 Cost of production per unit of the finished goods
  - 2.2 Selling price per unit

**INFORMATION:**

**1. Balances on 1 March 2017:**

Raw materials inventory	384 000
Work-in-process inventory	168 000
Finished goods inventory	133 920
Consumable stores inventory (factory)	22 560
Factory equipment at cost	420 000
Accumulated depreciation on factory equipment	144 000
Office equipment at cost	108 000
Accumulated depreciation on office equipment	16 800

**2. Transactions during the year:**

Raw materials purchased on credit	168 000
Raw materials purchased for cash	672 000
Carriage on raw materials paid	31 280
Indirect materials purchased for cash:	
For factory use	47 520
For office use	22 800
Selling & distribution costs:	
Advertising	12 000
Delivery costs	28 800

Rent expense	86 400
Insurance	83 000
Water & electricity	96 800
Salaries:	
Factory managers and foreman	288 000
Selling & distribution staff	160 000
Administrative & clerical staff	120 000

**3. Balances on 29 February 2008:**

Raw materials inventory	210 000
Work-in-process inventory	290 000
Finished goods inventory	644 000
Consumable stores inventory (factory)	19 360

**4. Additional information:**

**4.1 Wages paid:**

Ten factory workers at R4 500 per month

One cleaner at R2 400 per month (this cleaner works in the factory 50% of his time)

**4.2 Pension fund:**

All employees, except the cleaner, contribute to the pension fund. The deduction from earnings is 7,5% while the business contributes 10,5% of monthly earnings towards the pension fund.

**4.3 Unemployment insurance fund:**

The law states that a 1% deduction will apply to earnings by all employees. The business contributes an additional 1%.

**4.4 Depreciation:**

All equipment is depreciated at 10% p.a. on the diminishing balance method.

Note that new factory equipment was bought for cash on 1 September 2017 at a total cost of R180 000.

**4.5 Maintenance:**

Repairs to factory equipment were paid, R60 000. A further R3 600 is owed for repairs done during February 2018 – this has not been paid yet.

**4.6 Rent:**

The rental of the building must be divided between the factory and the administration section in the ratio 9:3.

**4.7 Insurance, water & electricity:**

Payments must be divided between the factory and the administration section in the ratio 80% to 20% respectively.

**4.8 Production:**

Total number of leather jackets produced: 4 974

**4.9 Sales:**

Finished goods are sold at cost plus 50%.

Total number of leather jackets sold: 3 840

**ANSWER**

**1. SUNSHINE MANUFACTURERS  
PRODUCTION COST STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2018**

	Notes	R
Direct costs / Prime costs		
Total manufacturing costs		
Cost of production of finished goods		

**NOTES TO THE FINANCIAL YEAR**

<b>1. DIRECT MATERIAL COSTS</b>		
Direct material costs		

<b>2. DIRECT LABOUR COSTS</b>		
Direct labour costs		

<b>3. FACTORY OVERHEAD COSTS</b>		
Factory overhead costs		

<b>4. COST OF FINISHED GOODS SOLD</b>	
Cost of finished goods sold	

<b>2.1 COST OF PRODUCTION PER UNIT OF FINISHED GOODS</b>	

<b>2.2 SELLING PRICE PER UNIT</b>	

